

Message Text

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SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE
(EDRC) REVIEW OF IRELAND, OCTOBER 31, 1975

REF: OECD DOCUMENT EDR(75)27

1. SUMMARY: DURING OCTOBER 31 EDRC REVIEW, IRISH INDICATED GENERAL AGREEMENT WITH SECRETARIAT'S ANALYSIS IN REFDOC PINPOINTING HIGH UNEMPLOYMENT AND RAPID INFLATION AS MAJOR SHORT-TERM PROBLEMS FACING IRISH POLICYMAKERS. GOI, HOWEVER, GAVE MORE EMPHASIS THAN DID SECRETARIAT TO RECESSION-INDUCED SHRINKING OF FOREIGN MARKETS IN PRODUCING DOWNTURN AND TO REQUIREMENT FOR RENEWED GROWTH OF THESE MARKETS FOR STIMULATING RECOVERY. FOR 1976, GOI FORESEES LARGER GNP GROWTH AND WEAKER CURRENT ACCOUNT POSITION THAN DOES SECRETARIAT. CONCERNING ECONOMIC POLICY, GOI AND SECRETARIAT AGREED THAT PRIORITY ATTENTION SHOULD BE GIVEN TO SHORT-RUN TASK OF REDUCING INFLATION AND UNEMPLOYMENT WHILE MEDIUM-TERM FOCUS SHOULD BE ON RESTRUCTURING FISCAL SYSTEM TO INCREASE INCOME ELASTICITY OF TAX REVENUE AND

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TO FURTHER / BUDGETARY SPENDING TOWARD DIRECT SUPPORT

OF INVESTMENT.

2. DOMESTIC PROSPECTS: OUTLOOK FOR 1976 AS SEEN BY GOI ASSUMES BUDGET WILL BE NEUTRAL AND THAT WAGES WILL BE INDEXED TO COMPENSATE FULLY FOR INCREASES IN CONSUMER PRICE INDEX. GOI EXPECTS 1 PERCENT INCREASE IN GNP DUE TO INCREASE (1 PERCENT) IN REAL CONSUMPTION, MILD INCREASE OF 1 PERCENT IN EXPORT VOLUME, AND HALT IN INVESTMENT DECLINE. SECRETARIAT FEELS OUTPUT WILL BE FLAT IN 1976, WITH MAIN CAUSE BEING 2.25PERCENT DECLINE IN REAL CONSUMPTION. SECRETARIAT/GOI DIFFERENCE IN REAL CONSUMPTION PROJECTION ATTRIBUTABLE TO MORE OPTIMISTIC PRICE PROJECTIONS ON PART OF GOI (14 PERCENT VS. 16 PERCENT) AND TO IRISH ASSUMPTION (NOT SUPPORTED BY SECRETARIAT) THAT SAVINGS RATIO WILL FALL. IN ANY CASE, 1976 GROWTH RATE WOULD NOT BE SUFFICIENT TO ARREST INCREASE IN UNEMPLOYMENT RATE WHICH COULD ATTAIN 13 PERCENT BY YEAR-END.

3. BALANCE-OF-PAYMENTS OUTLOOK: IRISH EXPORT OUTLOOK DEPENDS IMPORTANTLY ON REVIVAL IN U.K. MARKETS, WHICH ABSORB 55 PERCENT OF IRISH EXPORTS. IRISH EXPECT MILD UPTURN IN U.K. IN SECOND HALF OF 1976, AND REVIVAL IN OTHER MAJOR TRADING PARTNERS SOMEWHAT EARLIER. IN ADDITION, EXPECTED NET SALES OF IRISH BEEF STOCKS ACQUIRED BY INTERVENTION UNDER COMMON AGRICULTURAL POLICY WILL IN EFFECT INCREASE IRELAND'S EXPORT REVENUES (BUT NOT EMPLOYMENT). OVERALL, GOI AND SECRETARIAT SEE 1 PERCENT INCREASE IN EXPORT VOLUME. GOI FORECASTS 3-4 PERCENT INCREASE IN IMPORT VOLUME AS OPPOSED TO SECRETARIAT ESTIMATE OF ABOUT 1 PERCENT. DIFFERENCE MAINLY DUE TO DIVERGENT ESTIMATE OF GNP GROWTH, BUT SECRETARIAT AGREED THAT REPLENISHMENT OF STOCKS IN 1976 FROM CURRENT LOW LEVELS COULD PROVIDE IMPORT RESULTS CLOSER TO THAT OF GOI. WHILE IRISH PROJECT 1976 CURRENT ACCOUNT DEFICIT OF 100 MILLION POUNDS (SECRETARIAT PROJECTS 70 MILLION POUNDS), NO FINANCING PROBLEMS ARE EXPECTED.

4. ECONOMIC POLICY: SECRETARIAT RECOMMENDATIONS CON-
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CENTRATED ON REDUCING WAGE INCREASES, AND HENCE INFLATION, THROUGH AN ACTIVE INCOMES POLICY UNDER NATIONAL PAY AGREEMENT, AND ON NECESSITY TO DIRECT BUDGETARY RESOURCES AWAY FROM CURRENT SPENDING AND TOWARD PUBLIC SUPPORT OF INVESTMENT. SECRETARIAT VIEW IS THAT INCREASED CAPITAL FORMATION ESSENTIAL TO IMPROVE PRODUCTIVITY AND COMPETITIVENESS AND TO ABSORB EXPANDING LABOR FORCE. THUS, BUDGETARY AND WAGE POLICIES SHOULD

BE GEARED BOTH TO INCREASING DOMESTIC INVESTMENT SPENDING AND TO ENHANCING OF IRISH ABILITY TO ATTRACT FOREIGN INVESTMENT. AT THE SAME TIME, THE SECRETARIAT NOTED (AND IRISH AGREED) THAT IN VIEW OF 12 PERCENT UNEMPLOYMENT RATE A RESTRICTIVE OVERALL DEMAND MANAGEMENT POLICY

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STAND WOULD BE A "COUNSEL OF DESPAIR." IRISH POINTED OUT THAT INCOMES POLICY WAS BEST FOR SIMULTANEOUSLY REDUCING INFLATION AND UNEMPLOYMENT, BUT THAT SEVERE REDUCTION IN REAL INCOMES WOULD HAVE ADVERSE IMPACT ON CONSUMPTION, GROWTH AND PSYCHOLOGICAL CLIMATE. IN ADDITION, UNIONS HAD IN SOME INSTANCES ACCEPTED PAY INCREASES WHICH WERE LESS THAN THEY COULD HAVE CLAIMED ON BASIS OF NATIONAL PAY AGREEMENT. THUS, IN IRISH VIEW FULL WAGE INDEXATION SHOULD BE CONTINUED IN 1976.

5. IRISH AGREED THAT SAVINGS SHOULD BE EFFECTED ON CURRENT BUDGET ACCOUNT FOR TRANSFER TO CAPITAL ACCOUNT AND THAT IN THIS CONNECTION SOME SHIFT FROM INDIRECT TO DIRECT TAXES MIGHT BE IN ORDER TO INCREASE INCOME ELASTICITY OF TAX REVENUE. THEY NOTED' HOWEVER, THAT

FOR BOTH POLITICAL AND ECONOMIC REASONS ABOUT THREE-
QUARTERS OF CURRENT ACCOUNT EXPENDITURE IS EFFECTIVELY
NOT CONTROLLABLE. DISCUSSION OF 1976 BUDGET WAS THIN
AND HYPOTHETICAL SINCE IRISH WERE UNABLE TO ADDRESS
SPECIFIC BUDGETARY ISSUES AND PRIORITIES BEFORE FORMAL
PRESENTATION IN LATE JANUARY OF 1976 BUDGET, WHICH IS
STILL IN EARLY STAGES OF FORMULATION.
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6. IN SUMMARIZING DISCUSSION, SECRETARIAT NOTED THAT
IRISH ECONOMIC ILLS TOO NUMEROUS TO BE CURED SIMULTANE-
OUSLY, AND THAT PRIORITY SHOULD BE GIVEN TO REDUCING
UNEMPLOYMENT AND INFLATION IN SHORT RUN, BUT THAT
MEDIUM- AND LONG-TERM RELIEF COULD ONLY BE ACHIEVED
THROUGH STRUCTURAL REFORM IN FISCAL SYSTEM. IRISH
AGREED, AND ADDED THAT REVIEW OF MEDIUM-TERM POLICY
ABOUT TO BE UNDERTAKEN WOULD ADDRESS THESE STRUCTURAL
PROBLEMS.
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